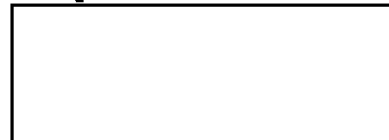
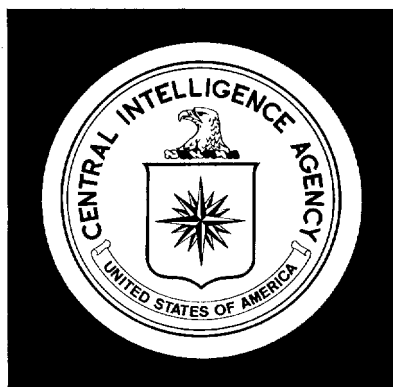


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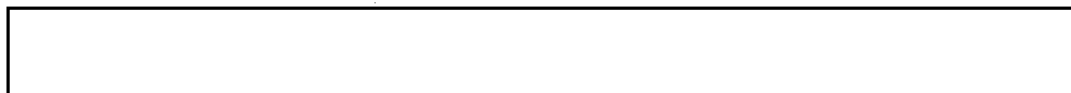


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**LIBYA-EGYPT:** Presidents Qadhafi and Sadat are both scheduled to make major speeches today which may clarify the situation in Libya and the status of the proposed union. In the meantime, the Libyan Government has come to a virtual standstill, and there are no signs that differences over the union have been resolved.

Qadhafi's resignation has provoked complete confusion throughout Libya. The ten other members of the ruling Revolutionary Command Council (RCC) have refused to accept his resignation and have threatened to resign en masse unless he returns to office. None of the RCC members appears to have taken responsibility for overseeing the government, and according to the official news agency, the cabinet has submitted a collective resignation as an expression of its complete support for Qadhafi's leadership. The commercial section of Tripoli has closed down, and vital public services including Tripoli International Airport have apparently been abandoned by many workers, who presumably have joined popular demonstrations calling for Qadhafi's return.

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Qadhafi reportedly is still in the Benghazi area, where marchers returning from Egypt are staging a sit-in until he withdraws his resignation. The Libyan leader apparently promised the crowds that he would discuss his resignation in the address today, but he reportedly refused their demands that he immediately announce "his return from retirement." Qadhafi's next move will most certainly be determined by his appraisal of the chances for achieving his own brand of union with Egypt. He may hope that by prolonging the drama of the last several days he can pressure the Egyptians to make some important concessions on the union issue.

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Sadat's publication on Friday of Qadhafi's resignation statement--probably with Libyan concurrence--provided a face-saving way around the embarrassment that confronted each leader as a result of the Libyan "march on Cairo." The announcement served Egyptian ends by diverting the marchers. At the same time, to avoid the appearance that the march had been a complete failure, Sadat received a small Libyan delegation in Cairo on Saturday and accepted the document demanding unity that the full procession had intended to carry to the Egyptian capital. The statement issued following the meeting affirmed the commitment of both sides to union and to its official proclamation, as scheduled, on 1 September.

These gestures have not, however, resolved differences over the form union will take, and consultations between Sadat and RCC members are continuing. At this time there are no signs that the stalemate over merger has been broken. Sadat has given no indication of being ready to back down on his demands for a gradual approach to union, despite the rhetoric in the Egyptian-Libyan statement praising unity. He is fully prepared, and has been throughout the past month's discussions, to proclaim some form of merger on 1 September, but it is doubtful that either the consultations, the unity procession, or Qadhafi's resignation has persuaded him that Libya's continuing demand for complete and immediate merger is in Egypt's interests.

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EUROPEAN COMMUNITIES: The foreign ministers of the nine member countries are meeting in Copenhagen today on ways to make their three-year-old experiment in coordinating foreign policies more effective. Only cautious procedural changes are likely, but the meeting may clarify recent hints of French willingness to strengthen the political consultative mechanism.

Efforts to coordinate foreign policies have had mixed results. The mechanism has been effective in coordinating positions for the Conference on Security and Cooperation in Europe and has encouraged many EC ambassadors, particularly at the UN, to work together more closely. On such divisive issues as the Middle East, however, common positions have not emerged.

Members find the lack of a secretariat an increasing handicap as the relationship between the political mechanism and the formal EC institutions in Brussels becomes increasingly complex. To deal with this problem, a working group has recommended that the Nine agree to accept formal expressions of Commission or political committee opinion on matters of particular foreign policy concern. The foreign ministers should also be able to ask for studies on certain political problems within the EC framework.

Opportunity to go much further, however, will depend largely on whether the recent French hints can be taken seriously. According to the Quai deputy director for Western European affairs, Paris is thinking of a "two-pillar" framework for European cooperation: a "European federation" under the Treaty of Rome to handle economic subjects covered by that treaty; and a "European confederation" to treat broad political and defense issues. Various committees would link the "pillars" and they would be capped by a "European union."

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In addition to these institutional questions, the Copenhagen conferees are expected to discuss a response to the US proposal for a new declaration of Atlantic principles. After the meeting this morning, the ministers will fly to Brussels to meet as the EC Council this evening and tomorrow. Both the absurdity of this two-site arrangement--which the French demanded--and the fact that many of the issues taken up in both cities concern relations with the US will underscore the need to rationalize the EC institutions.

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ARGENTINA: Peron may be unopposed in the election scheduled for 23 September.

Radical Party leader Balbin seems increasingly likely to join Peron on a "national unity" ticket. Another of the contenders in the March election has said he will not run; a third is apparently thinking the same way. If no other candidates are fielded, the formality of an election could be avoided by having Congress declare the unopposed slate the winner. Peron is believed to prefer this more expeditious method, but the military is cool to anything that smacks of an uncontested election or a plebiscite.

Negotiations on Balbin's candidacy are evidently still alive; a Radical Party congress will probably convene in another week to deal with the matter. Because both Peron and Balbin are elderly and in poor health, Peron presumably is also focusing attention on selection of a Senate president--a key post because of the line of succession.

The election--if it is held as scheduled--will probably be direct, rather than by the electoral college system. A government press spokesman said that a run-off election would be held if no one candidate obtains more than half of the votes cast. Although this is highly unlikely, the electoral format ironically is that used by the previous military government--a procedure condemned by Peronists when it was formulated.

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INDONESIA: The country is experiencing its worst bout of inflation in several years. During the first five months of 1973, prices rose at an annual rate of about 14 percent, more than double last year's pace. Housing and transportation costs have led the increase, and the February devaluation of the rupiah has boosted the cost of imported consumer goods as well as industrial materials. Moreover, the price of rice, which had fallen somewhat with the June harvest, has risen again. Although Jakarta is trying to slow price increases, a high rate of inflation probably will continue at least through the end of the year.

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BULGARIA-US: Visiting Deputy Minister of Foreign Trade Lukanov told US officials last week that Bulgaria may contract for \$100-150 million worth of goods on credit from the US during the rest of this fiscal year, and even more in the future. According to Lukanov, the Bulgarians are interested in expanding their petrochemical, metallurgical, and food and tobacco processing industries. In projecting Western imports to reach hundreds of millions of dollars, Lukanov's comments contrast sharply with his statements a year ago that Bulgaria's goal is to reduce indebtedness to the West. Moreover, such a rise in imports would be clearly inconsistent with the targets of Bulgaria's current Five Year Plan. While some large contracts may be under consideration by Sofia, Lukanov probably is inflating the value of future trade to encourage the US to proceed more rapidly toward granting Bulgaria most-favored-nation status.

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USSR: Mars 4, the Soviet space probe launched on 21 July, appears to be functioning normally and is scheduled to arrive in the vicinity of Mars next February. Proper conditions for any additional launches will exist through August. 

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*\*These items were prepared by CIA without consultation with the Departments of State and Defense.*

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